CORD
AND
RIEFS

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

TABLE OF CONTENTS

Page

Table of Authorities ii

I. The Conditional Sale Question Warrants Review. 2

A. This question is exceptionally important. 4

B. The "conditional sale" doctrine violates this Court' precedents. 5

II. The International Exhaustion Question Merits Review. 10

A. The issue is important. 11

B. The decision below is wrong. 11

Conclusion 13

TABLE OF AUTHORITIES

Page(s)

Bowman v. *Monsanto Co.*,
133 S. Ct. 1761 (2013) 3, 5, 8

Dickerson v. *Matheson*,
57 F. 524 (2d Cir. 1893) 12

Dickerson v. *Tinling*,
84 F. 192 (8th Cir. 1897) 12

eBay Inc. v. *MercExchange, L.L.C.*,
547 U.S. 388 (2006) 2

Griffin v. *Keystone Mushroom Farm*,
453 F. Supp. 1283 (E.D. Pa. 1978) 13

Harkness v. *Russell*,
118 U.S. 663 (1886) 6

Kimble v. *Marvel Entm't, LLC*,
135 S. Ct. 2401 (2015) 9

Kirtsaeng v. *John Wiley & Sons, Inc.*,
133 S. Ct. 1351 (2013) ..... *passim*

Petrella v. *MetroGoldwyn-Mayer, Inc.*,
134 S. Ct. 1962 (2014) 10

Quanta Computer, Inc. v. *LG Elecs., Inc.*,
553 U.S. 617 ..... *passim*

SCA Hygiene Products Aktiebolag v.
First Quality Baby Products, LLC,
807 F.3d 1311 (Fed. Cir. 2015) 10

Teva Pharm. USA, Inc. v. *Sandoz, Inc.*,
135 S. Ct. 831 (2015) 2

Statutes

35 U.S.C. § 271(a) 5, 12

The divided, *en banc* Federal Circuit reaffirmed two rulings that dramatically expand patent rights—and did so notwithstanding intervening decisions of this Court that, at the very minimum, cast serious doubt on the correctness of the court of appeals' precedents.

The adverse practical consequences of the rulings below are described in detail by the broad range of *amici* in this Court, including trade associations and individual companies representing varied sectors of the economy; and nonprofit organizations and law professors concerned with the anticompetitive consequences of unauthorized judicial expansion of the patent monopoly.

Lexmark does not identify a "vehicle problem" or otherwise dispute that the questions are squarely presented in this case. Lexmark's opposition rests on two points.

First, it contends that the rulings below are not important because they simply reaffirm settled Federal Circuit precedent. That is wrong.

The Federal Circuit precedents invoked by Lexmark were anything but settled. That is demonstrated by the court of appeals' initial hearing *en banc* to determine whether its precedents should be overruled in light of this Court's intervening decisions. And the *amici* confirm that, in the real world, market participants typically have refrained from invoking the rights Lexmark claims were so well-settled.

Even if Federal Circuit precedent had been settled, moreover, that would provide no reason for denying the petition. This Court frequently reviews longstanding Federal Circuit interpretations of the

patent law that have significant practical consequences and arise frequently. See, *e.g.*, *Teva Pharm. USA, Inc.* v. *Sandoz, Inc.*, 135 S. Ct. 831 (2015); *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Second, Lexmark argues that the rulings below are correct. This dispute about the merits provides no reason to deny review. Moreover, both rulings are starkly inconsistent with this Court's decisions and with fundamental patent law principles.

The holdings below rest entirely on the conclusion that statements in several recent decisions of this Court constituted "dicta." But that analysis ignored the fundamental principle underlying the patent exhaustion doctrine: that intellectual property statutes must be interpreted against the backdrop of "the common law's refusal to permit restraints on the alienation of chattels." *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

Permitting a patentee to negate the first-sale exhaustion doctrine by adding a few words to a sales contract and thereby maintain control of the sold good indefinitely is directly contrary to this fundamental background principle. As is permitting a patentee to sell an article outright outside the U.S. but nonetheless control that article's subsequent sale and use domestically. Nothing in the text of the Patent Act indicates that Congress intended to override the common law rule.

I. The Conditional Sale Question Warrants Review.

The holding below—that a patent owner that transfers title to an article may nonetheless impose restrictions on all downstream purchasers and users enforceable under the patent law—rejects the

longstanding position of the United States that an authorized sale exhausts all patent rights. See Pet. 19-21. Lexmark's contention (Opp. 16) that this Court considered and rejected the government's position in *Quanta* and *Bowman* is frivolous.

Quanta reversed a Federal Circuit decision relying on *Mallinkrodt*'s conditional sale doctrine. This Court held that "[t]he authorized sale of an article * * * exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta*, 553 U.S. at 638.

The Court did not expressly state that *Mallinkrodt* was no longer good law—but this Court generally does not itemize particular lower court precedents that cannot stand in light of its decisions; that is the job of the lower court. Certainly *Quanta*'s rule could not be more clearly inconsistent with *Mallinkrodt*.

The Federal Circuit in *Bowman* again invoked the conditional sale doctrine, stating that the patentee was free to contract out of the first-sale exhaustion rule. This Court affirmed on different grounds, holding that the first-sale exhaustion doctrine did not apply because the seeds in question had not been sold by the patent owner but rather were new seeds created from growing plants from the purchased seeds. *Bowman*, 133 S. Ct. at 1766-1767. Because this Court held there was no "first sale," it had no occasion to address the Federal Circuit's reliance on *Mallinkrodt* as an exception to the first-sale doctrine.

That question is squarely presented here.

A. This question is exceptionally important.

The holding below would produce dramatic consequences: any patent holder could completely eliminate the secondary market in its goods by including in the sales contract a clause barring resale of the article sold by the patentee. Intel Br. 18-19 (the ruling below "upends settled expectations and could allow patent holders to end secondary markets in patented goods"); see also Costco Br. 3.

Lexmark's response is that *Mallinkrodt* is a "decades-old precedent" and "[c]ommerce has not ground to a halt." Opp. 18-19. But, prior to the decision below, virtually no one in the marketplace relied on *Mallinkrodt*. Commentators thought that *Mallinkrodt* was wrong when it was decided (see, *e.g.*, AMDR Br. 11-12), and that it had been overruled by this Court's decision in *Quanta*. *Id.* at 17 (citing cases and articles agreeing that *Quanta* overruled *Mallinkrodt*); ACA Br. 12-13. Indeed, the district court *in this case*—expressly joining other courts—concluded "that *Mallinkrodt* was overruled by *Quanta* sub silentio." Pet. App. 154a.

The Federal Circuit's reaffirmation of *Mallinkrodt*, if permitted to stand, will thus significantly change marketplace reality. Patent holders will be confident that bans on the resale (or even reuse) of sold articles are fully enforceable against any downstream purchaser (or user)—no matter how many steps removed from the original sale.

Consumers will suffer from this destruction of secondary markets: "Secondary markets offer numerous social and economic benefits to consumers, such as placing lower-cost used goods on the market,

allowing purchasers to recoup some of their purchase cost at market rates, and protecting the environment by enabling reuse and recycling." Public Knowledge Br. 16. See also Costco Br. 10.

B. The "conditional sale" doctrine violates this Court' precedents.

Lexmark's main argument—that the decision below is correct (Opp. 8-18)—provides no reason to deny review. In any event, Lexmark is wrong.

Lexmark's analysis rests on the patent law's definition of infringement as the making, selling, or using of a patented invention "without authority." Opp. 8, 14-15 (citing 35 U.S.C. § 271(a)). But, as the dissent explained, "[t]hat reliance is misplaced" because "[p]atent exhaustion is a limit on the patentee's statutory right to control what purchasers can do with an article embodying or containing a patented invention." Pet. App. 119a-120a. See also IP Profs. Br. 6-9.

This Court has expressly acknowledged that principle: "[t]he doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman*, 133 S. Ct. at 1766. The Court appended to that sentence a footnote quoting Section 271(a), to describe the control a patentee may exercise *absent* exhaustion. *Id.* at 1766 n.2.

Section 271(a) is satisfied here, because exhaustion requires an initial *authorized* sale. And Section 271(a) contains no language demonstrating Congress's intent to override the background legal principle reflected in the exhaustion doctrine.

Lexmark cannot find support in this Court's other cases. With respect to the long line of authority we

discuss (Pet. 10-13), Lexmark points to the decision below (Opp. 10-11). But that court merely tried to distinguish the cases on the facts—it could not find support for the conditional sales doctrine in those cases. Pet. App. 35a-36a. Rather, the lower court was forced to characterize this Court's statements endorsing first-sale exhaustion as "dicta." Pet. App. 118a-119a (dissent, criticizing majority's parsing of this Court's precedent as dicta).

Lexmark's affirmative argument is limited to two cases—*Mitchell* and *General Talking Pictures*. Opp. 8-9. Neither support its position.

In *Mitchell*, the Court stated that patent rights are exhausted when the patentee "has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it * * * without any conditions." 83 U.S. at 547. But, as the dissent below explained (Pet. App. 114a-116a), a "conditional sale" was understood as a sale that was contingent upon—and thus only complete after—the occurrence of a subsequent condition; it was not a sale of *limited* rights. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed" in which title passes only when condition precedent is performed). See also Intel Br. 23 n.7; U.S. Fed. Cir. Am. Br. 11-12, 2015 WL 4112927. And any doubt is resolved by the numerous subsequent cases stating that a patentee cannot maintain a post-sale patent-based restriction.

Lexmark also misunderstands *General Talking Pictures*. Opp. 8-9. That case did not involve an authorized sale at all, because the first sale by the licensee was outside the terms of the license. Pet. 17.

Patent exhaustion, in all cases, requires an *initial* authorized sale. See also Pet. App. 120a-122a (dissent).

In any event, this question was put to rest in *Univis* and *Quanta*. See Pet. 14-16.

Lexmark tries to avoid *Univis* by arguing that *Univis* applies only to *price* restraints. Opp. 12-13. But the *Univis* Court, confronted with a variety of post-sale restrictions, stated in broad terms that "sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, *control the use or disposition of the article*." 316 U.S. at 250 (emphasis added). And it repeated that broad formulation: "[N]either the Lens Company nor the Corporation, by virtue of the patents, could after the sale of the lens blank exercise any further control over the article sold." *Id.* at 252.

If the Court had meant to say that a patentee cannot control only the "price" of the article, it would have said so. It instead used far broader language.

Lexmark's reading of *Univis* is also illogical. Lexmark appears to recognize that *Univis* prohibits it from setting a minimum resale price for its products. If Lexmark cannot control resale price via the patent laws, how could it be empowered to prohibit *resale* altogether.

Quanta confirmed this understanding of patent exhaustion. See page 3, *supra*. As the dissent below recognized, the Federal Circuit's conditional sale doctrine "cannot be reconciled with the Supreme Court's recent decision in *Quanta*." Pet. App. 105a.

Lexmark's next argument—that the "basic exhaustion rule" allows patentees to "transfer some or

all of their rights within the scope of the patent" (Opp. 14)—restates the same meritless argument. And Lexmark is simply wrong in asserting that the majority's ruling works no expansion of patent rights; "patent exhaustion" has "limit[ed] the patent rights that survive the initial authorized sale of a patent item" for "over 150 years" (*Quanta*, 553 U.S. at 621), but under the decision below, any patentee can circumvent those limits.

Finally, Lexmark points to a patentee's ability to impose restrictions when it licenses an article (or licenses another to produce the article), claiming that it can impose the same restrictions when it sells the article. Opp. 15-16.

But patent law sharply distinguishes between a patentee's sale of a good embodying a patent rights to a counterparty, which exhausts patent rights, and a license permitting the counterparty to use (*i.e.*, rent) the article, which permits the patentee to continue to assert those rights because he continues to own the article. That distinction stems from the common law's rejection of post-*sale* restraints on chattels, which this Court has held to be incorporated into patent law through the exhaustion doctrine.

Lexmark also contends (without citation) that "the parties agree that Lexmark could have achieved the same result by licensing the right to make and sell single-use cartridges to another entity." Opp. 7; 15-16. That is false.

Exhaustion turns on whether there is an "initial authorized sale." Pet. 16-18. This concept is well-established. See *Bowman*, 133 S. Ct. at 1766; *Quanta*, 553 U.S. at 621. When a patentee sells its own

goods, it chooses the circumstances in which it will sell; that transaction is thus a "sale" and necessarily "authorized" by the patentee.

If the patentee licenses a third party to sell, the patentee can similarly restrict the circumstances in which the licensee is "authorized" to make a sale. Pet. 16-18. A sale is "authorized" only if it is within the scope of the license. *Ibid.*

But the effect of such a first sale is identical whether made by a patentee or licensee—no post-sale restriction is enforceable via the patent law. Lexmark therefore could not achieve its desired result via a licensing structure. Intel Br. 21-23. If Lexmark licensed a third party to manufacture cartridges, but conditioned the third party's right to sell on obtaining promises from purchasers that they would not resell the cartridges, Lexmark still could not invoke patent law remedies if those purchasers nonetheless resold the cartridges. (Lexmark, or the third party manufacturer, might have a remedy in *contract* against the purchasers who sold cartridges.)

In sum, review is plainly warranted to correct the Federal Circuit's dramatic expansion of the patent monopoly.[1]

---

[1] Lexmark errs in invoking (Opp. 18) *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401 (2015), where the petitioner asked this Court to overrule *its own* past precedent. Here, the petition asks this Court to address an important issue decided by the court of appeals in a manner inconsistent with this Court's precedent.

II. The International Exhaustion Question Merits Review.

The majority below concluded that, notwithstanding this Court's decision in *Kirtsaeng* upholding international exhaustion in the copyright context, sales by the U.S. patent owner outside the United States do not exhaust U.S. patent rights. Compare *SCA Hygiene Products Aktiebolag* v. *First Quality Baby Products, LLC*, 807 F.3d 1311 (Fed. Cir. 2015) (laches remains a defense to patent infringement even though this Court held to the contrary with respect to copyright in *Petrella* v. *MetroGoldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014)), cert. granted, No. 15-927.

Again, the majority rejected the position advanced by the United States. Lexmark points out that the government's view—that there is a presumption that foreign sales exhaust U.S. patent rights absent a post-sale restriction to the contrary—differs from the more straightforward exhaustion rule that we advance. Opp. 30-31. But the divided Federal Circuit's rejection of the position advanced by the United States is compelling reason to grant review.

Indeed, Impression would prevail under the government's approach (which was adopted by the dissent). The government noted that it "is not aware of any indication in the record of this case that Lexmark expressly reserved any U.S. patent rights in making its foreign cartridge sales" (U.S. Br. 27) and Lexmark does not argue otherwise.

A. The issue is important.

The Federal Circuit's holding that foreign sales of patented articles *never* exhaust U.S. patent rights will have significant adverse consequences.

As *amici* demonstrate, products of all kinds contain dozens, if not hundreds, of components. In order to import such products, companies will now have to track the provenance of *every* sub-component and sub-sub-component within its products—magnifying costs borne by consumers. See Costco Br. 7-11; SanDisk Br. 14-15; Intel Br. 11; ASCDI Br. 10-11.

The Federal Circuit's rule will also chill innovation. Manufacturers frequently create new products by devising new combinations of and uses for existing components—but they can only justify investing in this process when they are confident that any patent rights in the relevant components have been exhausted. A rule against international patent exhaustion will discourage this kind of innovation. Costco Br. 9-10.

Finally, the rules governing copyright should accord with patent law, especially because many products contain both copyrighted and patented components. Pet. 34; IP Profs. Br. 6.

Lexmark's plea for deference to Congress relies on a faulty assumption—that the court below properly interpreted the common law and the Patent Act. Opp. 31-32. This Court should correct the Federal Circuit's wayward holding. *Then*, if Congress dislikes the results, it can legislate specific rules.

B. The decision below is wrong.

The decision below cannot be reconciled with *Kirtsaeng*. See Pet. 24-27.

The *Kirtsaeng* Court identified a *general* exhaustion principle, applicable to all forms of property, and held that it has no geographic limitation. It then went on to consider whether the text and structure of the Copyright Act somehow limited that general principle.

Lexmark cannot find the necessary limitation in the Patent Act. It again points to the use, in Section 271(a), of the term "authority." Opp. 26, 27-29. But patent exhaustion is an independent limitation on property rights—the term "authority" provides no evidence that Congress negated the common law rule. See, *supra*, 5.

Lexmark also argues that patent law is territorial. Opp. 27, 28-29. But it ignores that the same is true of copyright law. Pet. 27 n.3. Moreover, as *Quanta* established, the threshold test for application of exhaustion is not whether the article, when initially sold, would be *infringing* the patent—it is whether it would be *practicing* the patent. See Pet. 31-32. Because a good sold outside the United States *practices* the invention embodied in the patent, exhaustion applies.

Lexmark mistakenly relies on this Court's decision in *Boesch*. Opp. 21-22, 27. That case did not involve a sale authorized *by the U.S. patentee* (see IP Profs. Br. 22)—which is the relevant inquiry. *Quanta*, 553 U.S. at 636.

And Lexmark errs in asserting that "U.S. courts have followed *Boesch* in rejecting automatic worldwide exhaustion." Opp. 22-24. At most, a few decisions held that a patentee could preserve its U.S. rights *by expressly reserving them*. See *Dickerson* v. *Tinling*, 84 F. 192 (8th Cir. 1897); *Dickerson* v.

Matheson, 57 F. 524 (2d Cir. 1893); *Griffin* v. *Keystone Mushroom Farm*, 453 F. Supp. 1283 (E.D. Pa. 1978). The Federal Circuit *rejected* this argument.[2]

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

Counsel for Petitioner

JUNE 2016

---

[2] Many courts adopted *complete* international exhaustion, a position also rejected by the Federal Circuit. Pet. 28 n.5.